AR10

Kelly, Douglas & Company, Limited Annual Report 1970

Kelly, Douglas & Company, Limited Annual Report 1970

Officers

F. B. BROWN, Chairman ‡

V. F. MacLEAN, President and Chief Executive Officer

J. BAIRD, Senior Vice-President, Wholesale-Retail Operations

J. L. DAMPIER, Vice-President, Nabob Foods Operations

C. M. HUMPHRYS, C.A., Secretary-Treasurer

D. G. GIBBS, C.G.A., Controller

‡*Deceased*

Directors

J. BAIRD

F. B. BROWN*

G. E. CREBER, Q.C.

J. L. DAMPIER

F. MILDRED DOUGLAS †

J. L. FARRIS, Q.C.

C. M. HUMPHRYS, C.A.

J. H. KINNE

V. F. MacLEAN*

A. H. PINKHAM, C.A.

**Members of Policy and Administrative Committee*

†J. T. FRASER, *Alternate Director and member of Policy and Administrative Committee*

Transfer Agents

NATIONAL TRUST COMPANY, LIMITED

Registered Head Office

4700 KINGSWAY, BURNABY, B.C.

Annual Meeting

11 am, P.D.T., May 21, 1971
Kelly, Douglas & Company, Limited,
Board Room,
4700 Kingsway, Burnaby, B.C.

Kelly, Douglas & Company, Limited Annual Report 1970

Officers

F. B. BROWN, Chairman ‡

V. F. MacLEAN, President and
Chief Executive Officer

J. BAIRD, Senior Vice-President,
Wholesale-Retail Operations

J. L. DAMPIER, Vice-President,
Nabob Foods Operations

C. M. HUMPHRYS, C.A.,
Secretary-Treasurer

D. G. GIBBS, C.G.A., Controller

‡Deceased

Directors

J. BAIRD

F. B. BROWN*

G. E. CREBER, Q.C.

J. L. DAMPIER

F. MILDRED DOUGLAS†

J. L. FARRIS, Q.C.

C. M. HUMPHRYS, C.A.

J. H. KINNE

V. F. MacLEAN*

A. H. PINKHAM, C.A.

*Members of Policy and Administrative Committee

†J. T. FRASER, Alternate Director and member of Policy and Administrative Committee

Transfer Agents

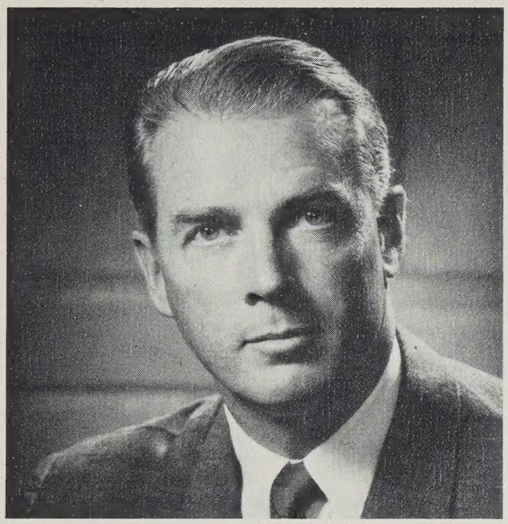
NATIONAL TRUST COMPANY, LIMITED

Registered Head Office

4700 KINGSWAY, BURNABY, B.C.

Annual Meeting

11 am, P.D.T., May 21, 1971
Kelly, Douglas & Company, Limited,
Board Room,
4700 Kingsway, Burnaby, B.C.



VICTOR F. MacLEAN
President

Report of the President

1970 marked the second successive year in your Company's seventy-three years of growth when total sales exceeded $200 million.

This is a gratifying result as it reflects the success of the Company's efforts to improve its overall share of market in the face of intense and expanding competition.

Sales for the 52 weeks ending December 26, 1970 reached a record level of $227,782,000, a 7.6% increase over 1969. These results, which do not include inter-company sales, are slightly below budget principally because of a construction strike and lockout which delayed the opening of our new Foremost dairy plant and also because of a drop in catering sales and a slower than expected introduction of Meteor Meats' block-ready beef programme to our retail store operations.

Total net operating profit for the year improved by 9% over 1969 to $1,738,000 after allowing for taxes. This is 6% above budget and reflects the healthy growth of the Company's wholesale and retail operations.

Results in the Manufacturing Division were lower than expected with net sales up only 5%. The significant rise in coffee prices which commenced early in 1970 due to drought and frost in the Brazil coffee plantations resulted in higher retail prices and consumer resistance. Other beverage sales were excellent, however, and good gains were made in the sales of instant coffee, fruit drink crystals and tea.

In the Retail Division, Super Valu Stores reported an outstanding recovery in performance with an increase of 27% in sales and 20% in profits following 13 weeks closure due to the strike suffered in 1969.

The increase in sales was also substantial in the Cloverdale Paint Division. Sales rose 30% over 1969. However, profits were adversely affected when a strike in British Columbia's electrical industry caused delays in the utilization of new equipment and the resultant loss of commercial paint volume.

The Federal government has voiced hopes that there will be a change for the better in Canada's real economic growth in 1971. If this proves to be the case, the change will be particularly beneficial to the provinces of Western Canada which comprise our principal marketing area. In 1970 this region was beset with very high levels of unemployment (8.3% in British Columbia compared to the Canadian average of 6.5%) and the easing of the government's stringent fiscal and monetary policies, which has been long overdue, should have a salutary effect on our programme for another excellent year of sustained growth in total sales.

Whether the economy will perform well enough to reduce the 1971 unemployment levels below the 1970 national average is open to question. The government's over-reaction to the pressures of inflation and its reluctance to introduce large-scale measures that would help bring the economy back to a level of reasonably full employment have resulted in a crisis of confidence among consumers and business leaders that cannot be easily restored. Because food is one of the basic necessities of life, our industry is not affected by a general business slowdown to the same degree as other industries. However, we are subject to the same pressures from rising costs in labour, transportation and raw materials, all of which failed to conform to the Federal government's anti-inflation efforts in 1970.

In October, 1970 the Prices and Incomes Commission warned that wage increases in the retail food industry would "obviously be passed on to consumers and contribute to inflation". This, in fact, has not been the case. In general, the food industry absorbed most of the exorbitant labour costs and adhered to the Commission's appeal to withhold price increases. However, the Commission's failure to persuade the unions to show similar restraint and the fact that it has now been disbanded by the government at a time when the problems are far from solved gives rise to the spectre of another round of unbridled union demands in 1971.

Even though British Columbia has the lowest average hours per work week in Canada, the highest weekly wages — 9.4% higher than the Canadian average, we can see no prospect of organized labour moderating its demands. Through its manipulation of the supply of money, its authority to tax at various levels of business, its influence on prices through a structure of tariffs and concessions, its policing of advertising and packaging, its policies of consumer protection and business surveillance, and its control over such factors as freight and postal rates, the Federal government already legislates the conduct of Canadian business to an extraordinary degree.

Other areas that concern us are the Federal government's policies on immigration and taxation. With high unemployment now one of the major problems it seems ludicrous that Canada should continue to promote immigration at the expense of Canadians who are desperately seeking jobs. What is needed is a fundamental revision in the government's immigration policy. Canadians must learn how to share the availability of work with themselves before they share it with others.

Although it condemns industry for increasing prices to meet rising costs, the Federal government is one of the major instigators of the inflation it attempts to control. Over the past ten years it has increased its spending and its share of the consumer's income to levels out of all proportion to what consumers have received in return. The Federal government's White Paper proposals which have been under critical review will increase this drain on personal resources to a point that will make the majority of Canadians not much better off in terms of real income than they were in 1961. We believe that restraints in union wage demands must be coupled with restraints in taxation. The stability and growth of the Canadian economy depend on these factors.

Discount food operations continued to provide increasing competition for your Company's retail operations during the year, but we managed to counterbalance their impact by keeping our pricing structure flexible and competitive while still maintaining a high standard of customer service and convenience. There were a number of instances where our prices were below those "discounted" elsewhere and as a result we were able to regain much of the sales volume lost during the 1969 grocery store strike and lockout.

Competitive pressures remained strong in all sectors of the retail food industry in British Columbia but there was no attempt by the major firms to enter into a discount price war similar to the one that engaged the industry in the East. It is of interest to note that it was the Eastern price war that was the main reason behind the drop in the consumer prices index in the last few months of 1970 and not the government's anti-inflation measures as was claimed by the Prime Minister.

Our catering revenues for the year were down due to plant closures, strikes, and the sluggish condition of the economy. Nevertheless, through the addition of some new contracts, the elimination of unprofitable operations and improvements in operational efficiency, profits were maintained at a higher level than anticipated.

In our Wholesale Division, sales improved 5% with most departments and branches ahead of the previous year. The only exception was the Cash & Carry group which declined in sales due to a cigarette price war. Operating profits for the Wholesale Division improved. Whitehorse, our newest branch, showed the best branch results.

In October our new egg operation at Fairview Farms commenced full production. This operation is controlled by Kelly, Douglas with the balance of the equity held by the largest egg supplier in British Columbia's Fraser Valley, Mt. Lehman Produce.

Our Foremost Foods plant opened in November to produce fluid milk, ice cream and cottage cheese products for sale in our retail outlets. The plant is one of the most up-to-date in North America and takes full advantage of the latest automated equipment and controls. Our retail dairy sales are up 18% over 1969 and we look forward to a substantial increase in volume during 1971, the first full year of operation for the Foremost plant. The Foremost operation is a joint venture, controlled and managed by Kelly, Douglas in conjunction with Foremost Foods of California who assist in marketing and promotion and supply the latest technical knowledge. All milk and by-products are processed with fluid milk from Fraser Valley farms.

In the Dickson Restaurant division, sales dropped 10% as a result of widespread industrial strikes and lockouts. Higher blend costs seriously reduced profit margins.

The overall outlook for your Company in 1971 is one of steady growth in total sales volume. We expect to see a good improvement in the results of a number of our new operations and product lines. Plant expansion and the opening of new stores should also assist in reaching our goals.

As this is written, economic indicators continue to predict a deceleration in domestic economic growth and a resurgence in inflationary pressures. The problems we had to face in 1970 will still be with us in 1971 and we will continue to approach them with the hope that government, unions and business leaders can work in common purpose, for mutual gain, to find solutions that will serve the best interests of the country rather than any particular political or social group.

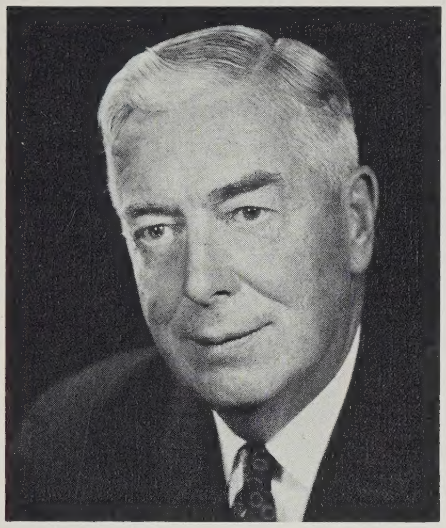
The continued growth of our Company depends on the knowledge, skill and attitude of our employees. Our stockholders may be justly proud of their efforts.

It is also a pleasure to thank the directors for the interest and support they have contributed on your behalf.

VICTOR F. MacLEAN

Victor MacLean

President



F. B. BROWN

It is with deep regret that we report the loss in August, 1970, of Fred B. Brown, Chairman of the Board of Kelly, Douglas & Company, Limited.

Mr. Brown was the first outside director elected to the Board of the Company and since joining in 1952 was enthusiastic and unrelenting in contributing his time and effort towards the Company's growth.

An outstanding citizen and director of many companies, his loss is deeply felt by the business community, his many personal friends and the members of the Board who were fortunate to have served with him.

The Manufacturing Division

Total sales for this division were higher than last year but not as strong as we had hoped.

Our principal product line is coffee and the impact of higher world prices accelerated an already declining pattern of consumption in the Canadian market. Another cause was the public's lack of confidence in the economy. As a result people were wary of how they spent their money, a tendency that affected the sales of coffee as well as almost every other commodity.

The outlook for the Nabob Foods division, however, is excellent. The division now markets a broad mix of consumer products that have won and maintained favourable acceptance in the face of intense competition.

Present research facilities are inadequate for our needs and plans are currently being developed for new premises that will help us continue our new product development work and quality control procedures.

In developing and testing new products we are aware of the profit potential in the trend towards convenience items. Products that fit into the modern housewife's way of life are replacing many of the older items and will continue to be in even greater demand as women spend less time in the kitchen and more time enjoying the many pleasures of family and social life.

Coffee Department

Despite the fall in coffee consumption in Canada in 1970, Nabob Coffee continued to maintain its number one position in share of market among the major producers in Canada. The brand accounts for approximately 50% of all national packs of ground coffee sold in the Western Canadian market. In the number of cups consumed per person per day, British Columbia and the Prairies lead the rest of the country by a wide margin.

It is expected that coffee prices will continue at higher than normal levels during 1971. The world coffee crop will be one of the lowest in ten years and new supplies will be well below anticipated demand. This situation has resulted from the very low production in Brazil, caused by frosts, drought and a coffee-bean disease called "broca". In 1970, the coffee crop in Brazil was reduced to 10 million bags from 20 million bags the year before.

While coffee prices have begun to level off, there is little likelihood that they will fall to the low levels experienced in early 1969. After years of over-production, the world coffee economy has entered an era of shortage that could last for several years.

During the year we introduced a line of agglomerated instant coffee under the name of Nabob West. The new line has been well promoted in the major media and has gained good sales volume in one of the most highly competitive of all product markets. We also introduced a new caffein-removed instant coffee. Agglomerated instant coffee now has over 56% of the Canadian market, freeze-dried coffee 12% and decaffeinated 7%.

Tea Department

All brands of Nabob Tea performed well in 1970. Prices were firm principally because of a recovery in world export prices which followed the producers' cutback of 90 million pounds in annual tea exports.

In the overall Canadian tea market Nabob ranks third in sales, and has 50% of the market in British Columbia. Our top line, Nabob DeLuxe Orange Pekoe Tea maintained its strong share of the market in Western Canada.

Confections and Sundries Department
We are pleased with the performance of Sungold fruit crystals, particularly Sungold Orange Flavour Crystals which had an excellent increase in sales. The market for orange flavour drinks is growing rapidly and quality improvement in this product as well as new packaging should generate further gains in 1971.

As part of our new products programme, we introduced Nabob Whip dessert topping and three new jelly powders.

Jam sales, principally strawberry, declined as raw material prices rose. Private label sales declined.

The sales of waffle syrup and dessert powders also declined due to increased competition and the introduction of new lines in the market.

The sales of spices and extracts improved 10%, with the best performance recorded by sales of pepper and private label spices.

Peanut Butter
Squirrel Peanut Butter products continued to do well in retail outlets across Western Canada. Squirrel is the largest selling brand in British Columbia. Peanut Butter has always had a high level of consumer acceptance, particularly among young people, and Squirrel's quality has won high marks in world competition.

The Retail Division

For 1970, Super Valu reported a 27% increase in sales while Super Valu and corporate stores combined improved sales by 25.5%. Profits were much improved over the previous year and advanced by 20%, an improvement largely attributed to a full year's operation without a work stoppage.

In recent years, Super-Valu has placed considerable emphasis on providing a large variety of specialized foods in self-contained departments. Our delicatessens have proven highly popular by supplying a wide range of appetizing convenience foods and hot "take-away" dishes ready for serving. We operate the largest in-store bakery departments of any major grocery chain in British Columbia and the increased sales of bakery products in 1970 made an excellent contribution to overall store results.

Throughout the year every effort was made to hold the line on retail food prices in response to the Federal government's call for restraint. However, our basic operating costs continued to grow unabated. Shoppers are understandably sensitive to food prices and in recent years have failed to grasp the fact that the retail food industry is by far the most competitive of all. No retailer can afford to charge more than the traffic will allow, but sooner or later has to convert the high cost of labour, freight and supplies into higher prices or run the risk of going out of business. Consumers should also be aware that Canadians pay a relatively low proportion of disposable income on food — only about 17% compared with the 26% that most Europeans have to pay. In some cases there have been major price reductions. When instant coffee was introduced 15 years ago, a six-ounce jar cost $2.49 on the average. Today, the regular price in many outlets averages about half the original price. Between 1961 and 1969 personal disposable income on a per capita basis rose from $1,437 to $2,400, or more than 60%. In the same period the average price of food increased at only half that rate.

Discounting continued to have a strong impact on the market in 1970, although there are indications that the trend is beginning to slow down. Throughout North America many chains that initially cut services when they went discount have since restored personnel, cheque-cashing and other customer services. One of the realities that discounters have had to face is the fact that labour costs cannot be cut back far enough to offset price reductions. Super-Valu stores have managed to compete with "discount" stores by bringing down prices to comparable levels without eliminating services and consequently have been able to maintain high volume in all departments.

There are now 87 independent and Company-owned Super Valu stores under the Company's Franchise Plan. During the year three new stores were built and a further five stores are contemplated for 1971.

The Meteor Meat operation was fully implemented during the year but at a slower pace than had been planned. The operation is a major factor in our effort to reduce costs and improve profits through central handling and processing of meats for all corporate and independent stores. Block-ready meat sales improved by 69%.

Our retail outlets are now being supplied with eggs from the new Fairview Farms operations that commenced full production in 1970.

The new Foremost Foods milk plant began production in the latter half of 1970 and is now providing our retail accounts with fluid milk, ice cream, cottage cheese and novelty packs. The plant was built at a cost of $2.5 million and is centrally located at the Lake City Industrial Park in Burnaby, B.C. The first seven weeks of operation were plagued by problems in automation which resulted in failure to reach desirable levels of efficiency. These difficulties have now been overcome and the plant will play an important role in lifting retail sales to record new levels in 1971.

The Wholesale Division

1970 was another excellent year for the Wholesale Division. Sales advanced 5% over the previous year and operating profit exceeded budget.

Operating expenses also continued to expand and additional wages amounting to $280,000 were absorbed in the warehouse and office sections.

The Wholesale Division is now handling a greater proportion of non-food items and, recognizing that variety is second only to price as the strongest customer appeal, particular attention is being paid to the newest innovations.

Western Commodities.
Sales and profits for Western Commodities showed a substantial improvement over the previous year with the increase coming from industrial and consumer foods, principally canned mushrooms. During 1970, Western Commodities handled all California fresh fruit and vegetables for the Company's produce operation on a brokerage basis.

The Catering Division

Catering revenue was down due to plant closures, industrial strikes and lockouts and the depressed state of the economy. Man-day strength dropped by 1000 men in camp from levels which peaked at 8000 the previous year. Nevertheless, the termination of certain unprofitable operations and the addition of new work, together with an improvement in operational efficiency and the merging of the Calvan and Canus companies into Calvan-Canus Caterers, maintained profits at a better than anticipated level.

During the year the newly formed Campco Pacific operated with limited revenue. Operating costs were kept to a minimum pending the decision of the U.S. Government on whether or not to go ahead with the 600-mile Alaska pipeline from the Prudhoe Bay oil fields to Valdez.

The possibility of tanker collisions off the British Columbia coast resulting in environmental damage and ecological problems has brought a deluge of complaints. The alternative of an inland Canadian route down the Mackenzie River Basin to Edmonton is now being studied.

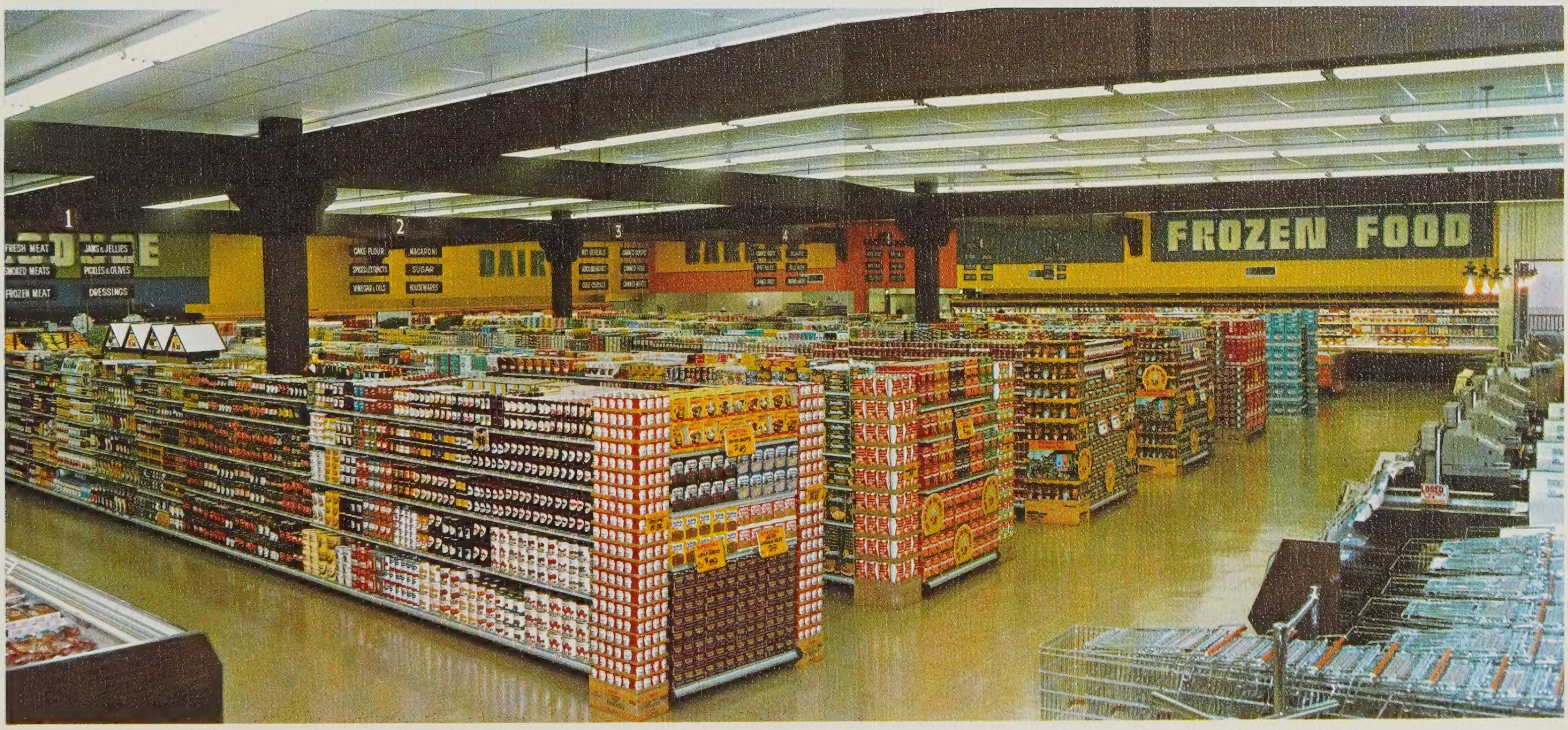
The Cloverdale Paint Division

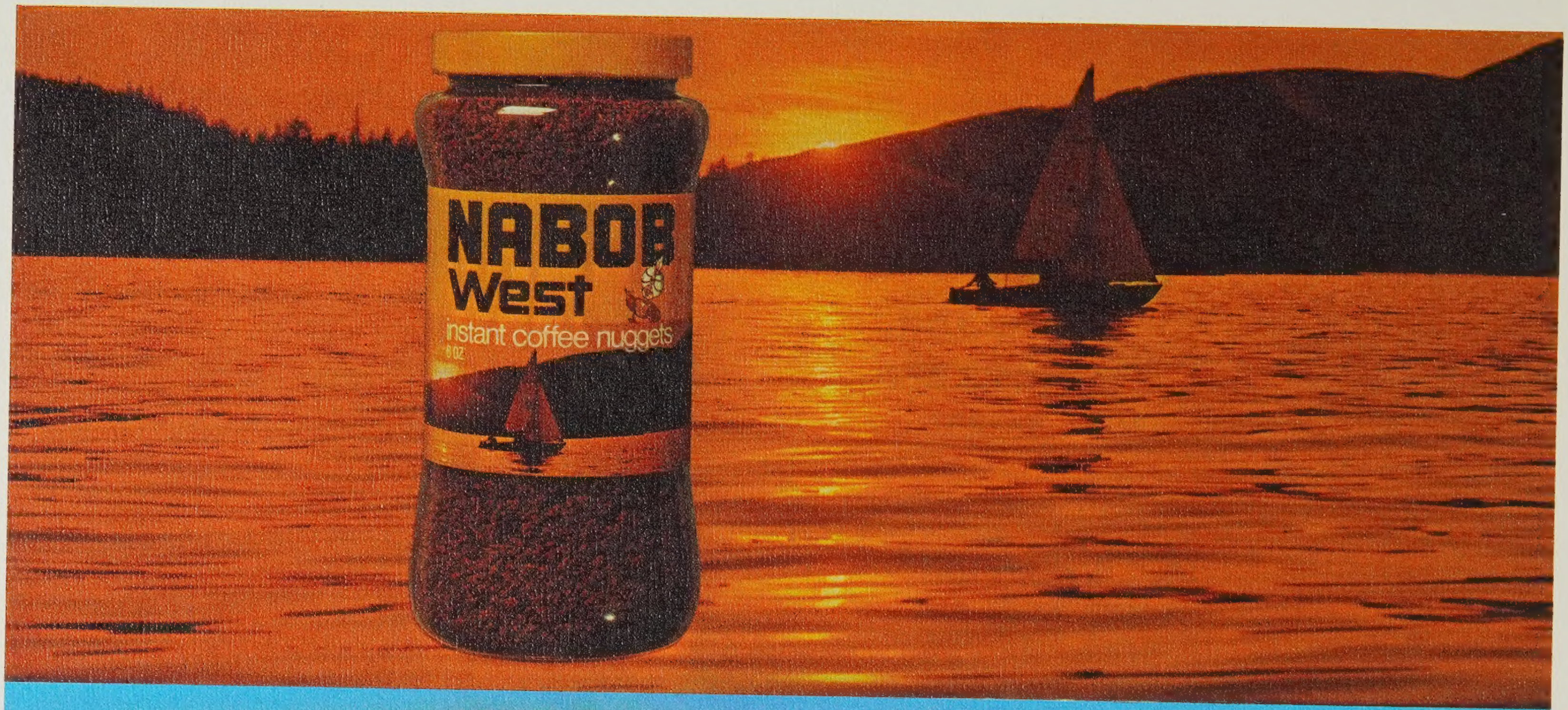
In terms of sales, 1970 was an excellent year for Cloverdale Paint with an increase of 30%. In terms of profits, 1970 was a disappointment. Important commercial paint volume was lost when a strike in British Columbia's electrical industry held up the installation of new equipment. The equipment is now operating and should enable the division to recoup these sales.

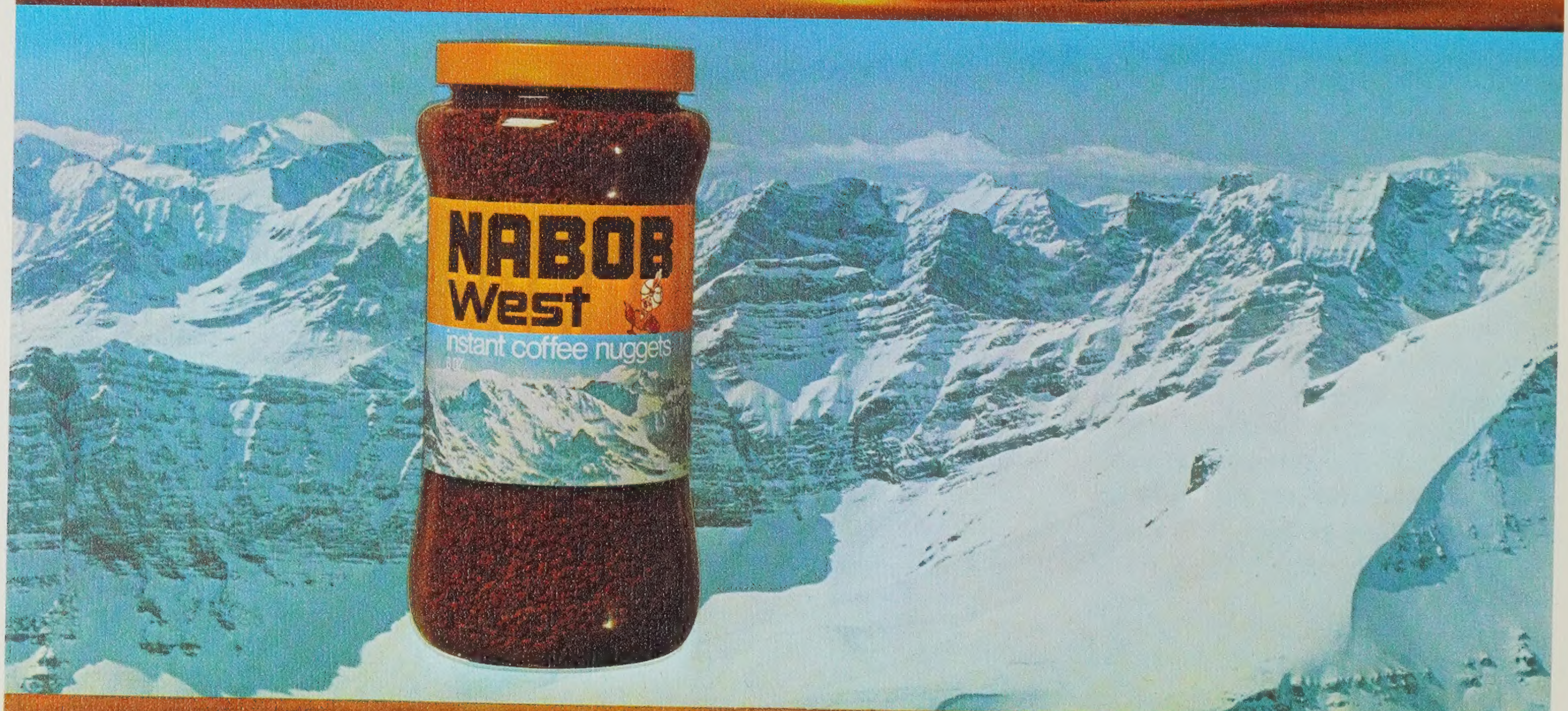
Sales declined in forest industry lines, stains and end-seal. Wax volume gained through the introduction of improved products and new acrylic detergent-resistant floor shines.

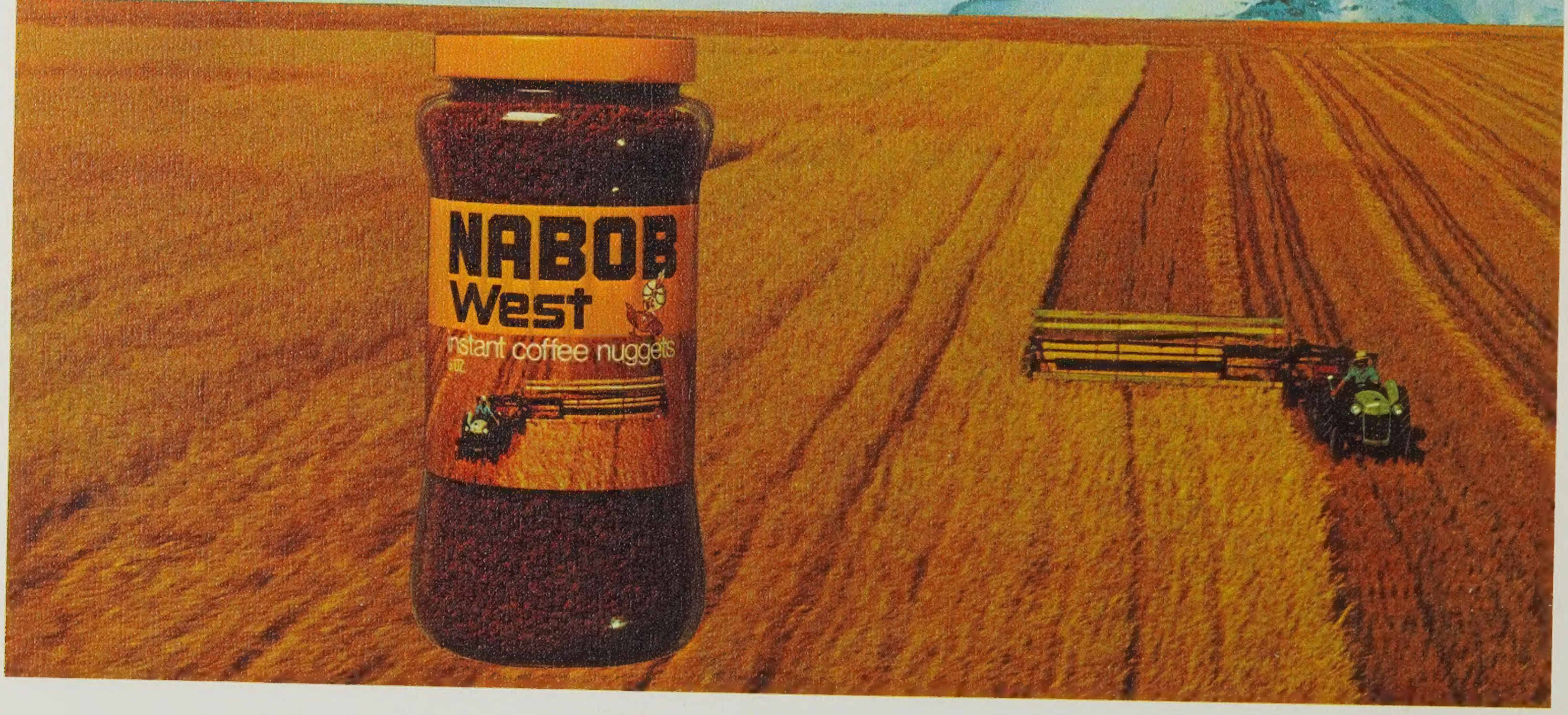
Three new branches were opened in 1970 and the Cloverdale-Monarch relationship and procedures were effectively re-organized.

One of the new Super Valu stores which feature more than 7,500 items.

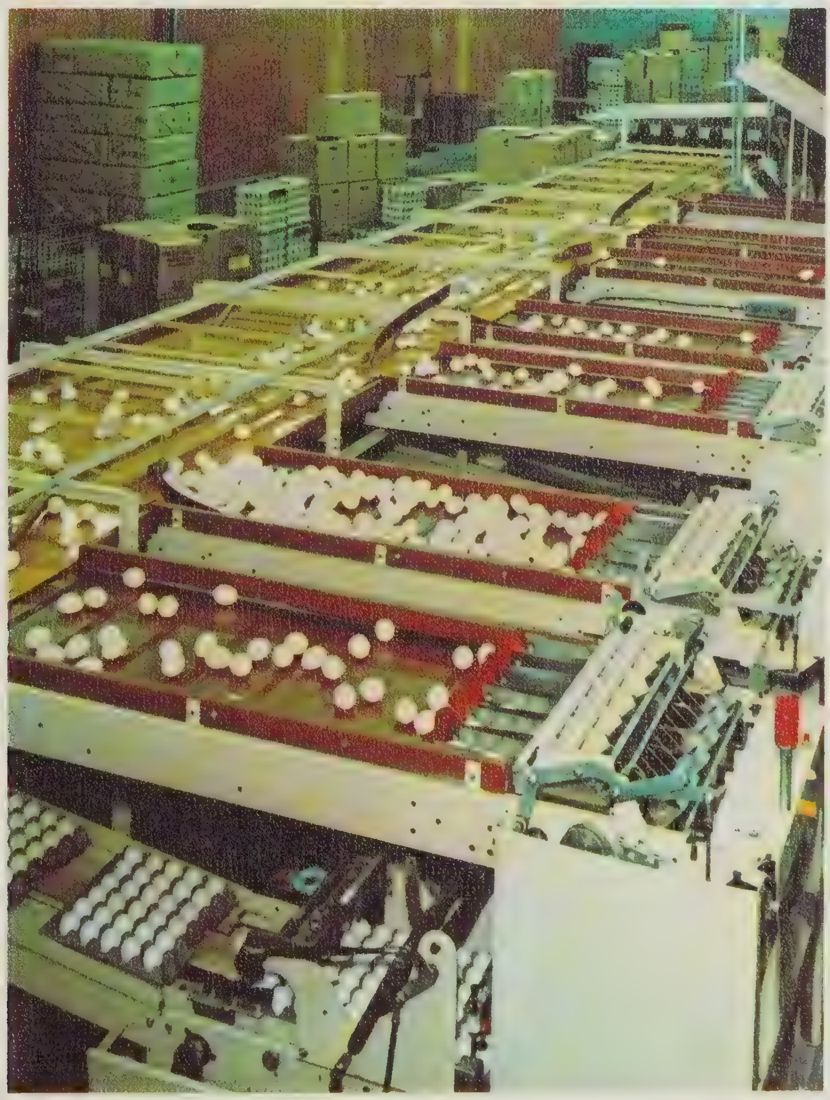



NABOB
West
instant coffee nuggets


NABOB
West
instant coffee nuggets


NABOB
West
instant coffee nuggets

Cloverdale Paint's new facilities include seven 6,000 gallon resin tanks each with automatic pumping and meter systems.

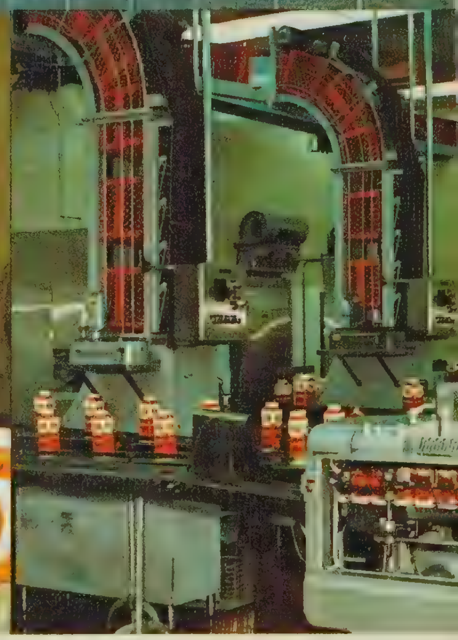


The egg operation at Fairview Farms utilizes this highly automated egg washing and grading machine which has a capacity of 4,000 dozen per hour.

Nabob West agglomerated instant coffee was one of the Manufacturing Division's major new product introductions during the past year. The striking labels for this new product reflect Nabob's time-honoured place in Western Canadian living.

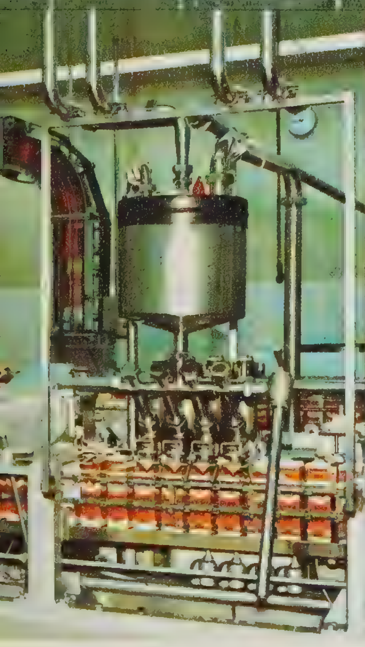
Laboratory technician preparing sample for testing.

One of three automatic fluid milk filling machines.



The fluid milk filling machine are entry of cases for the caser and sta

Pictured above is the new 40,000 sq. ft. Foremost Foods plant at Lake City Industrial Park in Burnaby, designed to meet the specific dairy department needs of today's super markets.



picting automatic

Cottage cheese vat room with blending operation being completed.

Foremost operates a fleet of refrigerated trucks and trailers.

Kelly, Douglas &

Consolidated balance

ASSETS

	December 26, 1970 (in thousands)	December 27, 1969 (in thousands)
CURRENT:		
Accounts receivable	$ 9,113	$ 8,084
Inventories (note 2)	25,423	23,710
Prepaid expenses	588	467
Total current assets	35,124	32,261
PROPERTIES HELD FOR RESALE, AT COST (note 3)	3,034	4,141
FIXED:		
Buildings, machinery and equipment, at cost	31,328	28,942
Less accumulated depreciation (note 4)	16,060	14,651
	15,268	14,291
Land, at cost	1,241	1,281
	16,509	15,572
OTHER:		
Deferred accounts receivable	829	826
Sundry investments	103	59
Unamortized debenture discount	51	58
Excess of cost of shares in subsidiaries over their underlying net book value at dates of acquisition (net), and purchased goodwill	1,034	916
	2,017	1,859
	$56,684	$53,833

ON BEHALF OF THE BOARD:

Victor F. MacLean, *Director*

C. M. Humphrys, *Director*

(See accompanying notes to consolidated financial statements)

Company, Limited and subsidiary companies

(Incorporated under the laws of British Columbia)

heet December 26, 1970

LIABILITIES

	December 26, 1970 (in thousands)	December 27, 1969 (in thousands)
CURRENT:		
Bank indebtedness (note 5)	$ 3,391	$ 646
Note payable and banker's acceptances	6,100	5,007
Accounts payable and accrued charges	14,403	15,656
Current portion of long-term debt	2,427	733
Income taxes payable	338	799
Total current liabilities	26,659	22,841
LONG-TERM DEBT (note 5)	4,942	7,662
DEFERRED INCOME TAXES	994	718
MINORITY INTEREST IN SUBSIDIARY COMPANIES	30	28

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 6):		
Authorized —		
20,000 4½% cumulative redeemable preference shares par value of $100, redeemable at par		
2,000,000 cumulative participating Class "A" shares without par value		
3,000,000 Class "B" shares without par value		
Issued —		
1,050,107 Class "A" shares	2,645	2,645
1,576,992 Class "B" shares	1,636	1,636
	4,281	4,281
RETAINED EARNINGS (note 7)	19,778	18,303
	24,059	22,584
	$56,684	$53,833

Consolidated Statement of Income
for the fiscal year ended December 26, 1970

	1970	1969
	(in thousands)	(in thousands)
Sales	$227,783	$211,660
Income from operations before the following	$ 9,881	$ 8,632
Deduct:		
Depreciation (note 4)	2,107	2,003
Lease payments (note 8)	2,771	2,445
Interest — long-term debt	504	538
— other	831	578
Minority interest in losses of subsidiary companies	(32)	(29)
	6,181	5,535
Income before income taxes and extraordinary item	3,700	3,097
Income taxes	1,998	1,503
Income before extraordinary item	1,702	1,594
Extraordinary item:		
Exchange gain (net of $40,000 income taxes) arising from floating of the Canadian dollar	36	
Net income	$ 1,738	$ 1,594
Earnings per Class "A" and "B" share:		
a) Before extraordinary item	65¢	61¢
b) After extraordinary item	66¢	61¢

Consolidated Statement of Retained Earnings
for the fiscal year ended December 26, 1970

	1970	1969
	(in thousands)	(in thousands)
Retained earnings beginning of fiscal year	$18,303	$16,971
Net income	1,738	1,594
	20,041	18,565
Dividends on Class "A" shares (note 6)	263	262
Retained earnings end of fiscal year (note 7)	$19,778	$18,303

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements
December 26, 1970

1. ACCOUNT RECLASSIFICATION

Certain minor changes have been made in the 1969 comparative statements in order to conform the classification with that followed in 1970.

2. INVENTORIES

	1970	1969
Inventories consist of:		
Finished goods, valued at the lower of cost and net realizable value	$21,094,000	$19,779,000
Raw materials, valued at the lower of cost and replacement cost	4,329,000	3,931,000
	$25,423,000	$23,710,000

3. PROPERTIES HELD FOR RESALE

It is the company's policy to assemble properties for future expansion. When the development of any location is completed, the property is sold under a lease-back arrangement.

4. DEPRECIATION

Depreciation is provided substantially on a straight-line basis over the estimated useful lives of assets at the following rates:

Buildings	5% and 10%
Machinery and equipment	10% and 20%
Automotive	20%
Leasehold improvements	over life of lease

Maximum capital cost allowance is claimed for income tax purposes and appropriate provision is made for deferred income taxes.

5. LONG-TERM DEBT

	1970	1969
Long-term debt consists of:		
6% sinking fund debentures, Series "A" maturing November 1, 1977; annual sinking fund instalment $100,000	$1,700,000	$1,800,000
Bank loans —		
Demand note payable bearing interest at prime rate plus 1% with scheduled quarterly repayments of $125,000 commencing March 31, 1970	2,625,000	3,000,000
Demand note payable bearing interest at prime rate plus ¾% with scheduled repayment at December 31, 1970		1,000,000
3% note payable, maturing January 1, 1971 (U.S. $1,689,650) (banker's acceptances)	1,711,000	1,816,000
Other	1,351,000	843,000
	7,387,000	8,459,000
Less:		
Debentures purchased for sinking fund purposes	18,000	64,000
Instalments due within one year	2,427,000	733,000
	2,445,000	797,000
	$4,942,000	$7,662,000

Instalments on long-term debt due in each of the next five fiscal years are:

1971 — $2,427,000	1974 — $750,000
1972 — 779,000	1975 — 746,000
1973 — 762,000	

The greater part of consolidated accounts receivable and inventories is pledged as collateral security against bank indebtedness.

Notes to Consolidated Financial Statements
(con't)

6. SHARE CAPITAL

The company's Class "A" shares entitle the holders thereof to fixed, cumulative, preferential cash dividends of 25¢ per share per annum payable quarterly. Any further dividends on the company's common shares shall be paid firstly to the Class "B" shareholders to the extent of 25¢ per share per annum plus the amount (if any) by which 25¢ exceeds their dividends in the preceding year, and thereafter in equal amounts per share to the Class "A" and Class "B" shareholders.

The Class "A" shares are non-voting except in the event of default in payment of six quarterly dividends.

The issued Class "B" shares as shown on the consolidated financial statements have been reduced by 41,133 shares held by a consolidated subsidiary and the paid up capital thereon by $41,133 the cost of the shares to the subsidiary.

7. RETAINED EARNINGS

	1970	1969
Appropriated as "capital surplus" on redemption of preference shares	$ 774,000	$ 774,000
Unappropriated	19,004,000	17,529,000
	$19,778,000	$18,303,000

8. LONG-TERM LEASES

In addition to the buildings owned and occupied, a number of manufacturing plants, distribution centres and retail stores are occupied under lease agreements, the majority on a long-term basis. Also, long-term leases have been entered into on additional stores which are sub-leased to independent operators and other lessees.

As at December 26, 1970 the rentals under long-term lease agreements are payable as follows:

For the five years ending December 31, 1975	$14,683,000
For the five years ending December 31, 1980	13,475,000
For the five years ending December 31, 1985	11,594,000
For the five years ending December 31, 1990	9,684,000
For the five years ending December 31, 1995	4,385,000
Subsequent to December 31, 1995	358,000
	$54,179,000

9. EXECUTIVE REMUNERATION

During the fifty-two weeks ended December 26, 1970 aggregate remuneration of directors and senior officers amounted to $232,000 ($251,000 for the fifty-two weeks ended December 27, 1969).

10. COMMITMENTS AND CONTINGENT LIABILITIES

Contractual commitments for capital additions amounted to $320,000 and contingent liabilities consisted of guarantees in the amount of $170,000 as at December 26, 1970.

Consolidated Statement of Source and Application of Funds

for the year ended December 26, 1970

	1970 (in thousands)	1969 (in thousands)
Source:		
Operations —		
Net income	$1,738	$ 1,594
Charges (credits) not resulting in an outlay (receipt) of funds:		
Depreciation	2,107	2,003
Deferred income taxes	276	(303)
Amortization of debenture discount	7	7
Minority interest in losses of subsidiary companies	(32)	(29)
Net loss on disposal of fixed assets	63	(12)
	4,159	3,260
Proceeds from disposal of fixed assets	742	215
Proceeds from properties sold for leaseback	2,462	1,241
Proceeds from issue of long-term debt	1,312	6,129
Decrease in deferred accounts receivable		70
Capital contributions attributable to minority interest	34	14
	8,709	10,929
Application:		
Increase in deferred accounts receivable	3	
Retirement of long-term debt	4,033	3,798
Purchase of properties held for resale	1,441	2,460
Purchase of fixed assets	3,762	3,854
Purchase of sundry investments	44	3
Excess of cost of shares acquired during the year over net book value thereof and purchased goodwill	118	(2)
Dividends on Class "A" shares	263	262
	9,664	10,375
Increase (decrease) in working capital	(955)	554
Working capital beginning of fiscal year	9,420	8,866
Working capital end of fiscal year	$8,465	$ 9,420

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of
Kelly, Douglas & Company, Limited:

We have examined the consolidated balance sheet of Kelly, Douglas & Company, Limited and its subsidiary companies as at December 26, 1970 and consolidated statements of income, retained earnings and source and application of funds for the fiscal year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 26, 1970 and the results of their operations and the source and application of their funds for the fiscal year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Vancouver, Canada, February 15, 1971.

CLARKSON, GORDON & CO., Chartered Accountants.

Kelly, Douglas & Company, Limited and subsidiary companies

10 year historical summary

FINANCIAL RATIO AND VALUES (thousands of dollars)

Fiscal Year	Current Ratio	Sales to Av. Inventory	A/C Receive. (Av.)—Days	Working Capital	Net Property & Equipment	Total Assets	Shareholders' Investment Total	Shareholders' Investment $ Per Share	Shareholders' Investment Increase
1970 (full year)	1.32-1	9.3	15	$8,465	$16,509	$56,684	$24,059	$9.16	6.5%
1969 " "	1.41-1	9.7	14	9,420	15,572	53,833	22,584	8.60	6.3
1968 (39 weeks)	1.44-1	10.5	14	8,866	13,923	47,823	21,252	8.09	6.6
1968 (43 weeks)	1.40-1	10.8	14	7,339	11,949	41,175	19,946	7.59	7.8
1967 (full year)	1.31-1	11.2	14	6,537	11,750	39,598	18,501	7.04	9.3
1966 " "	1.47-1	11.2	14	6,964	10,319	35,187	16,930	6.44	6.6
1965 " "	1.67-1	10.0	13	7,441	8,296	28,848	14,729	6.04	7.6
1964 " "	1.71-1	10.6	12	7,276	7,786	27,423	13,674	5.61	6.6
1963 " "	1.48-1	10.1	13	5,636	8,609	28,189	12,815	5.26	5.6
1962 " "	1.75-1	10.1	13	6,485	7,247	24,505	12,126	4.98	5.8

OPERATING (thousands of dollars)

Fiscal Year	Net Sales	Operating Income	*Rental Payments	Debenture Interest	Depreciation Provided	Income Taxes	Net Income	Shareholders' Cash Flow
1970 (full year)	$227,783	$8,716	$2,771	$102	$2,107	$1,998	$1,738	$4,159
1969 " "	211,660	7,656	2,445	111	2,003	1,503	1,594	3,260
1968 (39 weeks)	150,828	6,063	1,511	83	1,348	1,618	1,503	2,895
1968 (43 weeks)	153,965	5,790	1,577	97	1,433	1,325	1,358	2,704
1967 (full year)	173,522	7,202	1,767	126	1,605	1,871	1,833	3,749
1966 " "	154,424	6,148	1,552	130	1,288	1,630	1,548	3,161
1965 " "	130,418	5,205	1,392	138	1,061	1,348	1,266	2,414
1964 " "	119,281	4,624	1,308	145	1,013	1,085	1,073	2,128
1963 " "	113,049	3,982	1,135	150	963	830	904	1,972
1962 " "	106,129	4,104	1,129	159	874	904	1,038	2,088

*Including Stores Subleased to Independent Operators.

OPERATING RATIOS AND VALUES

Fiscal Year	Operating Margin	*Rent & Debenture Interest Coverage	Net Margin	Return on Average Equity	Earnings Per Share	Increase	Cash Flow Per Share	Dividends Per Class "A" Share
1970 (full year)	3.82%	3.30	.76%	7.45%	$.66	8.2%	$1.58	$.25
1969 " "	3.61	3.46	.75	7.27	.61	7.0	1.24	.25
1968 (39 weeks)	4.02	3.80	1.00	9.73	.57	9.6	1.10	.19
1968 (43 weeks)	3.76	3.46	.88	8.54	.52	(10.0)	1.03	.19
1967 (full year)	4.15	3.80	1.05	10.35	.70	18.6	1.43	.25
1966 " "	3.98	3.65	1.00	9.78	.59	13.5	1.20	.25
1965 " "	3.99	3.40	.97	8.91	.52	18.1	.99	.25
1964 " "	3.88	3.18	.90	8.10	.44	18.9	.87	.25
1963 " "	3.52	3.10	.80	7.25	.37	(13.9)	.81	.25
1962 " "	3.87	3.18	.98	8.81	.43	—	.84	.25

*Including Stores Subleased to Independent Operators.

FINANCIAL RATIO AND VALUES (thousands of dollars)

Fiscal Year	Current Ratio	Sales to Av. Inventory	A/C Receive. (Av.)—Days	Working Capital	Net Property & Equipment	Total Assets	Shareholders' Investment Total	$ Per Share	Increase
1970 (full year)	1.32-1	9.3	15	$8,465	$16,509	$56,684	$24,059	$9.16	6.5%
[illegible]	1.41-1	9.7	14	9,420	15,572	53,833	22,584	8.60	6.3
1968 (39 weeks)	1.44-1	10.5	14	8,866	13,923	47,823	21,252	8.09	6.6
1968 (43 weeks)	1.40-1	10.8	14	7,339	11,949	41,175	19,946	7.59	7.8
1967 (full year)	1.34-1	11.2	14	6,537	11,750	39,598	18,501	7.04	9.3
1966 " "	1.47-1	11.2	14	6,964	10,319	35,187	16,930	6.44	6.6
1965 " "	[illegible]	10.0	13	7,441	8,296	28,848	14,729	6.04	7.6
1964 " "	[illegible]	10.6	12	7,276	7,786	27,423	13,674	5.61	6.6
1963 " "	1.46-1	10.1	13	5,636	8,609	28,189	12,815	5.26	5.6
1962 "	[illegible]	10.1	13	6,485	7,247	24,505	12,126	4.98	5.8

OPERATING (thousands of dollars)

Fiscal Year	Net Sales	Operating Income	*Rental Payments	Debenture Interest	Depreciation Provided	Income Taxes	Net Income	Shareholders' Cash Flow
1970 (full year)	[illegible]	$8,716	$2,771	$102	$2,107	$1,998	$1,738	$4,159
1969 " "	[illegible]	7,650	2,445	111	2,003	1,503	1,594	3,260
1968 (39 weeks)	150,828	[illegible]	1,511	83	1,348	1,618	1,503	2,895
1968 (43 weeks)	[illegible]	[illegible]	1,577	97	1,433	1,325	1,358	2,704
1967 (full year)	[illegible]	[illegible]	1,767	126	1,605	1,871	1,833	3,749
1966 " "	154,424	6,148	1,552	130	1,288	1,630	1,518	3,161
1965 " "	[illegible]	5,205	1,392	138	1,061	1,548	1,266	2,414
1964 " "	[illegible]	4,524	1,308	145	[illegible]	1,085	1,073	2,128
1963 " "	113,049	3,982	1,135	150	963	830	904	1,972
1962 " "	106,129	4,104	1,129	159	874	904	1,038	2,088

*Including Stores Subleased to Independent Operators.

OPERATING RATIOS AND VALUES

Fiscal Year	Operating Margin	*Rent & Debenture Interest Coverage	Net Margin	Return on Average Equity	Earnings Per Share	Increase	Cash Flow Per Share	Dividends Per Class "A" Share
1970 (full year)	3.82%	3.30	.76%	7.45%	$.66	8.2%	$1.58	$.25
1969 " "	3.61	3.46	.75	7.27	.61	7.0	1.24	.25
1968 (39 weeks)	4.02	3.80	1.00	9.73	.57	9.6	1.10	.19
1968 (43 weeks)	3.76	3.46	.88	8.54	.52	(10.0)	1.03	.19
1967 (full year)	4.15	3.80	1.05	10.35	.70	18.6	1.43	[illegible]
[illegible]	3.98	3.65	1.00	9.78	.59	13.5	1.20	.25
1965 " "	3.99	3.40	.97	8.91	.52	18.1	.90	.25
1964 "	3.88	3.18	.90	8.10	.44	18.9	.87	.25
1963 "	3.32	3.10	.80	7.25	.37	(13.9)	.81	.25
1962 "	3.87	3.18	.98	8.81	.43	—	.84	.25

*Including Stores Subleased to Independent Operators.

Need Corp report

a release from JAMES LOVICK LIMITED

PUBLIC RELATIONS DIVISION

684-6221 | 1178 WEST PENDER STREET, VANCOUVER 1, B.C.

Contact: Frank Walden

From:
KELLY, DOUGLAS & COMPANY, LIMITED

of Vancouver reporter

(FOR RELEASE 11 a.m. MAY 21/71)

Record sales and a nine per cent increase in net operating profit for 1970 were reported today by Kelly, Douglas & Company, Limited of Vancouver.

President Victor F. MacLean reported that sales for the 52 weeks ending December 26, 1970 ~~reached a record~~ were $227.7 million, a up 7.6 per cent increase ~~over the~~ from $211.6 million in sales the previous year.

Net operating profit was $1,738,000, after allowing for taxes, as opposed compared with to $1.5 million ~~earned the~~ a year ~~before~~ earlier.

The head of the Vancouver-based food manufacturing, wholesale and retail corporation said the food industry was not affected by the general business slowdown in 1970 to the same degree as other industries because food is a basic necessity of life. However, he said the industry was subject to the same pressures from rising labor, transportation, and raw materials' costs, "all of which failed to conform to the federal government's anti-inflation efforts in 1970."

MacLean noted that in October, 1968 the Prices and Incomes Commission warned wage increases in the retail food industry would obviously be passed on to consumers and contribute to inflation.

He said this has, in fact, not been the case. The food industry has absorbed most of the exorbitant labor costs and adhered to the Commission's appeal to hold price increases to under six per cent.

(more)

"However," he said, "the Commission's failure to persuade the unions to show similar restraint and the fact that it has now been disbanded by the government at a time when the problems are far from solved gives rise to the spectre of another round of unbridled union demands in 1971 ... we can see no prospect of organized labor moderating its demands."

The annual report said western Canada, which was beset with high levels of unemployment, would benefit from an easing of the federal government's stringent fiscal and monetary policies.

"The government's over-reaction to the pressures of inflation and its reluctance to introduce large scale measures that would help bring the economy back to a level of reasonably full employment have resulted in a crisis of confidence among consumers and business leaders that cannot be easily restored," MacLean said.

MacLean said the federal government legislates the conduct of Canadian business to an extraordinary degree through manipulation of the money supply, taxes on various levels of business, its influence on prices through tariffs and concessions, its policing of advertising and packaging, policies of consumer protection and business surveillance, and its control over such factors as freight and postal rates.

The federal government's policies on immigration and taxation also concern business.

"With high unemployment now one of the major problems, it seems ludicrous that Canada should continue to promote immigration at the expense of Canadians who are desperately seeking jobs," he said.

(more)

"What is needed is a fundamental revision in the government's immigration policy. Canadians must learn how to share the availability of work with themselves before they share it with others."

The Kelly, Douglas president said the federal government is one of the major instigators of the inflation it attempts to control, although it condemns industry for increasing prices to meet rising costs.

"Over the past ten years," he said, "it has increased its spending and its share of the consumers' income to levels out of all proportion to what consumers have received in return.

"The federal government's White Paper proposals which have been under critical review will increase this drain on personal resources to a point that will make the majority of Canadians not much better off in terms of real income than they were in 1961.

"We believe that restraints in union wage demands must be coupled with restraints in taxation. The stability and growth of the Canadian economy depends on these factors."

MacLean said that the company kept its pricing structure flexible and competitive in 1970 to counter the discount food operations. In many cases, Kelly, Douglas prices were below the discounters, thus increasing sales volume.

Here is his report for various divisions of the company:

The Manufacturing Division - net sales were up five per cent. High coffee prices produced some consumer resistance but beverage sales were excellent for sales of instant coffee, fruit drink crystals, and tea.

(more)

The Retail Division - Super Valu Stores ~~reported~~ Lead an increase of 27 per cent in sales and 20 per cent in profits following a 13 weeks' closure due to a strike in 1969.

The Cloverdale Paint Division - sales rose 30 per cent over 1969. However, profits were affected adversely by a strike in B.C.'s ~~electrical~~ construction industry.

Revenue of The Catering Division - catering revenues for the year were down because of plant closures, strikes, and the sluggish ~~condition of the~~ economy. However, with the addition of some new contracts, the elimination of unprofitable operations and improvements in operational efficiency profits were maintained at a higher level than anticipated.

Sale of The Wholesale Division - ~~sales advanced~~ were up almost five per cent with most departments and branches ahead of the previous year. Operating profits improved.

The company opened its new Foremost Foods milk plant in November and retail dairy sales are ahead 18 per cent, with a substantial volume increase expected in 1971.

Sales of the Dickson Restaurant Division ~~dropped~~ were down ten per cent because of strikes.

MacLean said that the outlook for the company in 1971 is one of steady growth in total sales volume, even though economic indicators continue to predict a deceleration in domestic economic growth and resurgence of inflationary pressures.

"The problems we had to face in 1970 will still be with us in 1971 and we will continue to approach them with the hope that government, unions and business leaders can work in common purpose, with mutual gain to find solutions that will serve the best interests of the country rather than any particular political or social group," he said.

The Retail Division - Super Valu Stores recorded an increase of 17 per cent in sales and 28 per cent in profits following a 13 weeks' closure due to a strike in 1969.

The Cloverdale Paint Division - sales rose 28 per cent over 1969. However, profits were affected adversely by a strike in B.C.'s aluminum industry.

The Catering Division - catering revenues for the year were down because of plant closures, strikes, and the sluggish condition of the economy. However, with the addition of some new contracts, the elimination of unprofitable operations and improvements in operational efficiency profits were maintained at a higher level than anticipated.

The Wholesale Division - sales advanced almost five per cent with most departments and branches ahead of the previous year. Operating profits improved.

The company opened its new Torrance Foods milk plant in November and retail dairy sales are ahead 18 per cent, with a substantial volume increase expected in 1971.

Sales of the Gladson Restaurant Division dropped ten per cent because of strikes.

Hudson said that the outlook for the company in 1971 is one of steady growth in total sales volume, even though economic indicators continue to predict a deceleration in domestic economic growth and resurgence of inflationary pressures.

"The problems we had to face in 1970 will still be with us in 1971 and we will continue to approach them with the hope that government, unions and business leaders will work in common purpose, with mutual gain to find solutions that will serve the best interests of the country rather than any particular political or social group," he said.

LITHOGRAPHED IN CANADA LPIU 33